

Review of Audits of Outside Agencies

March 2004

City Auditor's Office

City of Kansas City, Missouri

March 23, 2004

Honorable Mayor and Members of the City Council:

Non-municipal agencies receive substantial taxpayer support. In fiscal year 2003, 49 agencies received \$141 million in funding or pass-through money to operate or administer programs or services that further the public good. This funding represented almost 20 percent of the city's general municipal program expenditures during the fiscal year.

It is important that each agency's financial management is sound. Agencies receiving \$100,000 or more from the city in a year are required to engage a certified public accountant to conduct a financial audit and a qualified professional to analyze the agency's internal control structure. The city's Code of Ordinances requires that this office report the results of the agencies' commercial audits to the Mayor, City Council, and City Manager.

Commercial auditors for 8 of the 46 agencies submitting audits had findings they were required to report. The number of agencies with findings and the number of findings decreased from the prior year. Three agencies did not submit their audits as required and eleven agencies did not submit the required internal control analyses.

The city has a significant financial stake in many of the non-municipal agencies. When one of these agencies experiences financial problems, there can be serious ramifications for the city. To give a more complete picture of the financial health of these agencies, this report now includes some financial analyses for reporting agencies that received over \$1 million in fiscal year 2003.

We appreciate the courtesy and cooperation extended to us during this project by the agencies, their accounting firms, and the city monitoring departments. We sent a draft report to the City Manager and monitoring departments for their review on March 5, 2004. The team for this project was Joyce Patton and Nancy Hunt.

Mark Funkhouser
City Auditor

cc: Wayne A. Cauthen, City Manager

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Introduction

Objectives

This review of audits of outside agencies was conducted pursuant to Article II, Section 13 of the Charter of Kansas City, Missouri, which establishes the office of the City Auditor and outlines the City Auditor's primary duties. City code requires the City Auditor to review audits of outside agencies and report the negative opinions, reportable conditions, and material weaknesses to the Mayor, City Council, and City Manager on an annual basis.

A performance audit systematically examines evidence to independently assess the performance and management of a program against objective criteria. Performance audits provide information to improve program operations and facilitate decision-making.¹

The purpose of this report is to provide elected officials and city staff with information on the performance of agencies receiving significant city funding and assist them when making decisions about funding for these agencies.

Scope and Methodology

Our review was limited to those outside agencies² receiving \$100,000 or more from the city in fiscal year 2003. This review is based on the audit reports we received between January 25, 2003 and March 4, 2004. Audit reports are based on the agency's fiscal year, which can vary from the city's fiscal year.

Our review was performed in accordance with generally accepted government auditing standards. We do not include a written response from management because we do not make any recommendations, however we provided a draft copy to the City Manager and monitoring departments. Audit methods included:

¹ Comptroller General of the United States, *Government Auditing Standards* (Washington, DC: U.S. Government Printing Office, 2003), p. 21.

² An outside agency is any entity with which the city contracts and/or provides funds for the operation or administration of a program or service which furthers the public good. Contracts with the Commissioner of Purchases and Supplies, construction contracts, consultant or engineering contracts, and contracts with governmental entities are excluded.

- Identifying outside agencies that received at least \$100,000 in fiscal year 2003 from the city.
- Obtaining and reviewing audits of financial statements, reports on internal controls and compliance, and management letters.
- Identifying and summarizing opinions on financial statements, reportable conditions, material weaknesses, and material noncompliance identified by the agencies' commercial auditors.
- Identifying agencies' planned corrective actions.
- Calculating selected financial ratios for those agencies receiving \$1 million or more from the city during fiscal year 2003.

No information was omitted from this report because it was deemed privileged or confidential.

Background

Legislative Authority

Code of Ordinances. Section 2-113 of the Code of Ordinances requires any agency receiving \$100,000 or more in city funding within a year to engage a certified public accountant (CPA) to conduct a financial audit and requires the CPA to submit the audit, management letter, and response to the management letter to the City Auditor. In addition, the agency is required to engage a professional qualified to analyze the agency's internal control structure, and the professional is to furnish the City Auditor with a copy of the analysis. The annual audit is to be submitted to the monitoring department within six months of the agency's fiscal year-end.

OMB Circular A-133. Agencies receiving at least \$300,000 annually in federal funding have additional reporting requirements.³ The federal Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires these agencies to have reports on internal controls over financial reporting and on compliance with laws, regulations, and contract or grant agreement provisions.

³ This threshold was raised to \$500,000 for fiscal years ending after December 31, 2003.

Funding

During fiscal year 2003, the city provided 49 non-municipal agencies with over \$141 million in total funding, representing almost 20 percent of the city's general municipal program expenditures during that year. Nine city departments contract with these outside agencies and are responsible for monitoring the agencies' performance. The magnitude of the city's expenditures devoted to non-municipal agencies makes it important for elected officials to be informed of any concerns expressed by an agency's commercial auditor that may jeopardize the agency's ability to safeguard and use properly the funding it receives from the city. (See Exhibit 1.)

Exhibit 1. Funding Provided to Selected Outside Agencies, Fiscal Years 2001 – 2003

Agency	2001	2002	2003
18 th and Vine Authority	\$ 979,808	\$ 955,294	\$ 206,428
American Jazz Museum	0	0	467,571
Black Economic Union of Greater Kansas City	322,631	661,179	540,029
Bridging the Gap, Inc.	561,654	633,368	518,315
Cabot Westside Clinic	219,101	269,779	206,148
Children's Mercy Hospital	4,010,290	4,048,298	3,562,596
Community Assistance Council, Inc.	102,348	115,537	149,192
Community Development Corporation of Kansas City	100,000	308,441	341,099
Community LINC, Inc.	0	10,250	135,071
Convention and Visitors Bureau of Greater Kansas City	5,885,712	5,565,975	5,795,528
Economic Development Corporation of Kansas City, Mo.	1,476,681	1,533,495	1,220,648
Friends of the Zoo, Inc.	N/A	895,500	2,950,000
Good Samaritan Project, Inc.	866,754	898,228	895,805
Greater Kansas City Housing Information Center	143,474	153,014	192,765
Guadalupe Center, Inc.	447,143	444,326	388,902
Heartland Aids Resource Council, Inc.	206,734	179,485	205,984
Hispanic Economic Development Corporation	199,355	186,406	1,076,357
Hope House, Inc.	121,475	138,709	105,419
Housing and Economic Development Financial Corp.	11,037,037	17,892,861	24,385,586
Kansas City Area Transportation Authority	29,851,403	32,298,511	31,215,024
Kansas City Free Health Clinic	765,707	954,906	1,279,241
Kansas City Neighborhood Alliance	143,068	139,231	137,193
KCMC Child Development Corporation	294,935	226,256	237,186
Land Clearance for Redevelopment Authority ⁴	345,523	794,265	10,140
Legal Aid of Western Missouri	695,685	772,486	758,962
Mattie Rhodes Counseling and Art Center	0	13,805	183,087
Metropolitan Ambulance Services Trust	1,907,626	2,263,571	4,419,422
Metropolitan Lutheran Ministry	302,881	301,274	325,636
Midtown Community Development Corporation ⁵	283,843	464,383	505,355

⁴ The Land Clearance for Redevelopment Corporation's 2002 audited financial statement was received after January 25, 2003 and is included in this year's report.

⁵ Now known as Swope Community Builders.

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Agency	2001	2002	2003
Minority Contractors Association of Greater Kansas City, Inc.	212,748	119,445	183,203
Move UP, Inc.	0	50,621	158,636
Neighborhood Housing Services of Kansas City, Inc.	135,392	127,229	127,242
Newhouse, Inc.	195,645	165,579	141,643
Northland Neighborhoods, Inc.	210,582	244,147	257,642
Old Northeast, Inc.	272,830	315,011	252,479
Operation Breakthrough, Inc.	190,093	267,214	264,240
Planned Industrial Expansion Authority of Kansas City, Mo.	1,028,793	370,601	264,020
Port Authority of Kansas City, Missouri	30,000	1,219,698	687,092
Rose Brooks Center, Inc.	63,643	657,373	158,640
Samuel U. Rodgers Health Center, Inc.	687,690	634,303	702,749
SAVE, Inc. and Affiliates	1,216,429	1,078,789	1,129,650
Swope Parkway Health Center	921,970	883,554	839,917
Tax Increment Financing Commission of Kansas City, Mo.	17,294,389	19,499,861	28,180,797
Truman Medical Center, Inc.	27,987,371	28,825,649	23,674,157
Twelfth Street Heritage Development Corporation	169,307	245,022	191,700
Union Station Kansas City, Inc.	1,106,012	1,344,077	1,222,248
United Inner City Services, Inc.	120,130	170,885	134,078
United Services Community Action Agency	168,940	137,735	137,747
Westside Housing Organization, Inc.	269,129	147,273	260,866
Total	\$113,551,961	\$129,622,899	\$141,383,435

Source: City's Financial Management System (AFN).

Summary

Non-municipal agencies receive substantial taxpayer support. Commercial auditors for most of the non-municipal agencies receiving \$100,000 or more in fiscal 2003 did not report any accounting or internal control problems that are required to be reported under generally accepted auditing standards (GAAS) and generally accepted government auditing standards (GAGAS). Commercial auditors expressed concerns with 8 of the 46 agencies that submitted financial reports.

This report summarizes items of concern identified by the agencies' commercial auditors; the agencies' reported corrective actions; and city oversight activities. Financial ratios are presented for the reporting agencies that received more than \$1 million from the city in fiscal year 2003. We also identify non-reporting agencies.

Reports Reviewed

Forty-six agencies submitted audit reports between January 25, 2003 and March 4, 2004. Commercial auditors expressed concerns about 8 of these agencies. The commercial auditors reported fewer agencies with findings and fewer findings than in the prior review period. (See Exhibit 2.) An agency can have multiple findings and may submit more than one audit within a review period when the prior year's audit was delayed.

Exhibit 2. Type of Finding by Year⁶

Finding	Number of Agencies				
	2000	2001	2002	2003	2004
Qualified Opinion	1	0	1	2	1
Disclaimer of Opinion	0	0	1	1	0
Reportable Condition	8	11	13	11	7
Material Weakness	2	2	4	4	1
Noncompliance	4	3	4	5	4
Agencies Reviewed	43	44	49	45	46
Agencies with Findings	9	11	15	14	8
Percent of Agencies with Findings	21%	25%	31%	31%	17%

Sources: Annual agency commercial audits.

⁶ The years within the exhibit indicate the year in which an agency's audit was included in this annual report.

Exhibit 3 is a summary, by monitoring department, of the reports we reviewed and the findings indicated by the agencies' commercial auditors. Eleven agencies did not submit internal control analyses. Three agencies submitted two years of audit reports during this review period. Summaries for both audits are included in Exhibit 3.

Exhibit 3. Summary of Reports Reviewed and Findings

Agency Name	Audit Year Ending	Type of Opinion	Material Weakness ⁷	Reportable Condition ⁷	Non-Compliance ⁸
City Planning and Development					
18th and Vine Authority	4/30/2003	Unqualified	No	No	No
American Jazz Museum, Inc.	4/30/2003	Unqualified	No	No	No
Economic Development Corporation of Kansas City, Missouri	4/30/2003	Unqualified	No	No	No
Economic Development Corporation of Kansas City, Missouri	4/30/2002	Unqualified	No	No	No
Land Clearance for Redevelopment Authority	4/30/2002	Unqualified	No	No	No
Planned Industrial Expansion Authority of Kansas City, Missouri	4/30/2003	Unqualified	No	No	No
Port Authority of Kansas City, Missouri	4/30/2003	Unqualified	N/P	N/P	N/P
Port Authority of Kansas City, Missouri	4/30/2002	Unqualified	No	No	No
Tax Increment Financing Commission of Kansas City, Missouri	4/30/2003	Unqualified	Yes	Yes	No
Tax Increment Financing Commission of Kansas City, Missouri	4/30/2002	Unqualified	Yes	Yes	No
Convention and Entertainment Centers					
Convention and Visitors Bureau of Greater Kansas City	4/30/2003	Unqualified	N/P	N/P	N/P
Finance					
Union Station Kansas City, Inc.	12/31/2002	Unqualified	N/P	N/P	N/P
Health					
Cabot Westside Clinic	12/31/2002	Unqualified	No	No	N/P
Children's Mercy Hospital	6/30/2003	Unqualified	No	No	No
Good Samaritan Project, Inc.	12/31/2002	Unqualified	N/P	N/P	N/P
Heartland AIDS Resource Council, Inc.	12/31/2002	Unqualified	No	No	No
Kansas City Free Health Clinic	3/31/2003	Unqualified	No	No	No
Mattie Rhodes Counseling and Art Center	12/31/2002	Unqualified	N/P	N/P	N/P
Metropolitan Ambulance Services Trust	4/30/2003	Unqualified ⁹	No	Yes	N/P
Samuel U. Rodgers Health Center, Inc.	9/30/2002	Unqualified	No	Yes	Yes
SAVE, Inc. and Affiliates	6/30/2003	Unqualified	No	No	No
Swope Parkway Health Center	12/31/2002	Unqualified	No	No	No
Truman Medical Center, Inc.	4/30/2003	Unqualified	No	No	No

⁷ N/P indicates an internal control report was not prepared.

⁸ N/P indicates a compliance report was not prepared.

⁹ The commercial auditor's report noted that MAST experienced continued reductions in net assets as a result of its operations.

Agency Name	Audit Year Ending	Type of Opinion	Material Weakness⁷	Reportable Condition⁷	Non-Compliance⁸
Housing and Community Development					
Black Economic Union of Greater Kansas City	12/31/2002	Qualified	No	Yes	No
Community Assistance Council, Inc.	12/31/2002	Unqualified	N/P	N/P	N/P
Community Development Corporation of Kansas City	2/28/2003	Unqualified	No	No	No
Greater Kansas City Housing Information Center	12/31/2002	Unqualified	No	No	No
Hispanic Economic Development Corporation	5/31/2003	Unqualified	No	No	No
Kansas City Neighborhood Alliance	12/31/2002	Unqualified	N/P	N/P	N/P
Midtown Community Development Corporation	12/31/2002	Unqualified	No	Yes	Yes
Minority Contractors Association of Greater Kansas City, Inc.	5/31/2003	Unqualified	No	No	No
Move UP, Inc.	6/30/2003	Unqualified	N/P	N/P	N/P
Neighborhood Housing Services of Kansas City, Inc.	9/30/2002	Unqualified	No	No	N/P
Northland Neighborhoods, Inc.	5/31/2003	Unqualified	No	No	No
Old Northeast, Inc.	12/31/2002	Unqualified	No	Yes	Yes
Twelfth Street Heritage Development Corporation	5/31/2003	Unqualified	No	No	No
Westside Housing Organization, Inc.	5/31/2003	Unqualified	No	No	No
Neighborhood and Community Services					
Community LINC, Inc.	12/31/2002	Unqualified	N/P	N/P	N/P
Guadalupe Center, Inc.	12/31/2002	Unqualified	No	No	Yes
Hope House, Inc.	9/30/2002	Unqualified	No	No	No
Legal Aid of Western Missouri	12/31/2002	Unqualified	No	No	No
Metropolitan Lutheran Ministry	1/31/2003	Unqualified	No	No	No
Newhouse, Inc.	12/31/2002	Unqualified	No	No	No
Operation Breakthrough, Inc.	10/31/2002	Unqualified	No	No	No
Rose Brooks Center, Inc.	6/30/2003	Unqualified	No	No	No
United Inner City Services, Inc.	12/31/2002	Unqualified	No	No	No
United Services Community Action Agency	9/30/2002	Unqualified	No	Yes	No
Environmental Management					
Bridging the Gap, Inc.	4/30/2003	Unqualified	N/P	N/P	N/P
Public Works					
Kansas City Area Transportation Authority	12/31/2002	Unqualified	No	No	No

Sources: Annual agency audits performed by the agencies' commercial auditors for the years ended as indicated above.

Qualified Opinions

Auditors issue a qualified opinion when they see departures from generally accepted accounting principles (GAAP) or have major limitations on the scope of an audit, such as might occur from missing documentation. Except for the effects of the matters to which the qualification relates, the financial statements fairly present, in all material respects the entity's financial position, results of operations, and cash flow in conformity with generally accepted accounting principles. One agency received a qualified opinion on its financial statements. (See Exhibit 4.)

Exhibit 4. Qualified Opinion

Housing and Community Development

- **Black Economic Union of Greater Kansas City (December 31, 2002)**
The auditors were unable to obtain documentation to verify certain transactions pertaining to grant revenue and other fees.¹⁰
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According to its president and chief executive officer, the Black Economic Union is addressing the qualified opinion by preparing an Executive Summary that will include the parties to each agreement, the parties' roles and responsibilities, and anticipated receipts and disbursement by amount and date. Additionally, executed agreements will be maintained in the permanent files and the Executive Summaries will be maintained in both a permanent file and computerized database.

The City Manager's Office contracted with an independent audit firm to evaluate the Black Economic Union's grant administration. According to City Manager's Office staff, the evaluation findings have not been made public.

¹⁰ Black Economic Union of Greater Kansas City, Independent Auditor's Report, Kumar Consulting P.A., for the year ending December 31, 2002.

Material Weaknesses

A material weakness is a significant deficiency in which the design or operation of specific internal controls does not ensure that errors or irregularities material to the financial statements will be detected promptly by employees in the normal course of their work. A material weakness is also a reportable condition; however, reportable conditions are not always material weaknesses. Auditors for one agency reported an internal control finding significant enough to be considered a material weakness. (See Exhibit 5.)

Exhibit 5. Material Weakness

City Planning and Development	
•	Tax Increment Financing Commission of Kansas City Missouri (April 30, 2002 and April 30, 3003)
	The Commission does not have a system in place to accurately account for the amount of tax increment financing receivable from the various taxing authorities. ¹¹

Economic Development Corporation employees who staff the Tax Increment Financing Commission (TIF) told us that they continue to work with the city and counties to accurately determine the TIF Commission's receivable due. According to TIF staff, current accessibility to tax information makes correcting this material weakness and reportable condition difficult. The City Auditor's Office is currently conducting an audit of barriers to identifying and transferring tax dollars for TIF development. The report is expected to be released in June 2004.

Reportable Conditions

Reportable conditions are deficiencies in the design or operation of an entity's internal control structure that could adversely affect the entity's ability to record and report financial data. Reportable conditions are of a less serious nature than material weaknesses. Six agencies had at least one reportable condition that their auditors did not also classify as material weaknesses. (See Exhibit 6.)

¹¹ Tax Increment Financing Commission of Kansas City, Missouri, Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, Cochran, Head & Co., P.C., for the years ending April 30, 2002 and April 30, 2003.

Exhibit 6. Reportable Conditions

Health

- **Metropolitan Ambulance Services Trust (April 30, 2003)**
The accounts receivable subledger was not reconciled to the general ledger.¹²
- **Samuel U. Rodgers Health Center (September 30, 2002)**
Certain individuals have assigned duties, access or the ability to process, record and monitor transactions in the accounting cycles, which are considered to be conflicting duties in an effective internal control structure.¹³

The Health Center did not reconcile bank accounts and accounts payable monthly and did not fully investigate and resolve all reconciling items.¹³

Housing and Community Development

- **Black Economic Union of Greater Kansas City (December 31, 2002)**
The fixed asset schedule/register had not been reconciled with general ledger balances.¹⁴

Black Economic Union did not maintain proper records of various term loans and agreements with the Housing and Economic Development Financial Corporation and other agencies.¹⁴

Black Economic Union did not follow a policy of procuring competitive bids for the purchase of goods and services nor did the agency maintain documentation ensuring price comparisons were made before acquisition.¹⁴

Supporting invoices/documentation for certain non-federal program revenues and expenses were not always canceled and stamped when paid. Also bills/invoices were not initialed or signed by an authorized person.¹⁴

Dual signatures were occasionally missing from checks requiring them.¹⁴

¹² Metropolitan Ambulance Services Trust, Letter to the Finance Committee of the Board of Trustees, Current Year Reportable Condition, KPMG LLP, for the year ending April 30, 2003.

¹³ Samuel U. Rodgers Health Center, Independent Accountants' Report on Compliance and Internal Control Over Financial Reporting Based on the Audit of the Financial Statements in Accordance with *Government Auditing Standards*, BKD LLP, for the year ending September 30, 2002.

¹⁴ Black Economic Union of Greater Kansas City, Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, Kumar Consulting, PA., for the year ending December 31, 2002.

- **Midtown Community Development Corporation (December 31, 2002)**
Midtown Community Development Corporation outsources relocation responsibilities to the City's Property and Relocation Services Division. During consideration of Midtown Community Development Corporation's compliance controls over the Neighborhood Initiative Grant for the year ending December 31, 2001, the auditors noted the Corporation did not actively monitor the Property and Relocation Services Division's compliance with federal regulations concerning the relocation of individuals. While Midtown intended to perform a site visit in fiscal year 2002, the auditors noted Midtown Community Development Corporation was not in compliance for the year ended December 31, 2002.¹⁵ (This reportable condition is also a noncompliance finding.)
- **Old Northeast, Inc. (December 31, 2003)**
Old Northeast, Inc. overstated reimbursements for the 2002-2003 contract.¹⁶ (This reportable condition is also a noncompliance finding.)

Neighborhood and Community Services

- **United Services Community Action Agency (September 30, 2002)**
United Services Community Action Agency made several payments to vendors for housing assistance. Documentation supporting property ownership was not consistent with county property records. Costs incurred may not be allowable under the program.¹⁷

To address reportable conditions, the agencies reported hiring additional staff, comparing registers to the general ledger, converting files to electronic databases, segregating duties, stricter adherence to policies, and conducting site visits.

¹⁵ Midtown Community Development Corporation, Report of Independent Accountants on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133, Independent Accountants' Schedule of Findings and Questioned Costs, PricewaterhouseCoopers LLP, for the year ending December 31, 2002.

¹⁶ Old Northeast, Inc., Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133, Schedule of Findings and Questioned Costs, Mayer Hoffman McCann P.C., for the year ending December 31, 2002.

¹⁷ United Services Community Action Agency, Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards, Schedule of Findings and Questioned Costs, Ralph C. Johnson & Company, P.C. for the year ending September 30, 2002.

According to the MAST finance director, the city is providing an accountant to determine why the sub-ledger accounts were not reconciled to the general ledger. Additionally, MAST plans to hire a bookkeeper by April 30, 2004.

According to Samuel U. Rodgers Health Center's corrective action plan, the health center reorganized and reassigned duties and hired additional staff. The health center also automated bank reconciliations.

According to the Black Economic Union's president and chief executive officer, the agency plans to have its accounting department compare the fixed assets register to the general ledger on a quarterly basis; change its filing system to properly maintain term loans and agreements; have the asset management team evaluate its service contracts for bid processes and documentation; institute new procedures to cancel and stamp supporting invoices and documentation when paid; segregate payment responsibilities; adhere to its check signatory policy; and destroy all signature stamps.

The Midtown Community Development Corporation reports developing a monitoring review document and a semi-annual site visit schedule; and conducted a site visit of the City's Property and Relocation Services Division on December 31, 2003.

According to Old Northeast, Inc.'s chief financial officer, the agency corrected the overstated reimbursements by not drawing down federal funds from January to May 2003.

According to their corrective action plan, the United Services Community Action Agency requires documentation identifying the property owner before a rental or mortgage payment can be made.

City departments monitor more agencies' corrective actions.

Departments are more consistent in monitoring efforts. City department personnel met with agencies to discuss findings and proposed corrective actions. One city department requires a written agency response to audit findings.

The City Manager's Office contracted with a commercial accounting firm to review the Black Economic Union's expenditures and reimbursements involving city grants.

The Housing and Community Development Department reports that it requires agencies to provide the department with a written response to all audit and management letter issues. The department said it will verify

that Midtown Community Development Corporation conducted a site visit of the city's Property and Relocation Services Division and that Old Northeast, Inc.'s implemented corrective actions before the end of the program year.

The Neighborhood and Community Services Department reports that it identified the misuse of funds involving the United Services Community Action Agency, notified the agency and the U.S. Department of Housing and Urban Development, and conducted an audit of the agency's contracts. Problems with one contract were identified and the department reports that it did not refund the agency with that source of funds.

The Health Department reports it met with Samuel U. Rodgers Health Center staff to discuss items of concern and the agency's corrective action plan. The Health Department staff also report that they are scheduling a meeting with MAST management to discuss the reportable condition.

Noncompliance

Auditors for four agencies reported findings of noncompliance with laws, regulations, and contract or grant agreement provisions. We reviewed compliance reports from 34 agencies. Agencies receiving at least \$300,000 in federal funding and falling under OMB A-133 reporting requirements are required to report noncompliance. (See Exhibit 7.)

Exhibit 7. Noncompliance Findings

Health

- **Samuel U. Rodgers Health Center (September 30, 2002)**
Samuel U. Rodgers Health Center, Inc.'s audited financial statements and OMB A-133 reports were not filed timely.¹⁸
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¹⁸ Samuel U. Rodgers Health Center, Inc. Independent Accountants' Report on Compliance and Internal Control Over Compliance with Requirements Applicable to Major Federal Awards Programs, Schedule of Findings and Questioned Costs, BKD, LLP, for the year ending September 30, 2002.

Housing and Community Development

- **Midtown Community Development Corporation (December 31, 2002)**
Midtown Community Development Corporation outsources relocation responsibilities to the City's Property and Relocation Services Division. During consideration of Midtown Community Development Corporation's compliance controls over the Neighborhood Initiative Grant for the year ending December 31, 2001, the auditors noted the Corporation did not actively monitor the Property and Relocation Services Division's compliance with federal regulations concerning the relocation of individuals. While Midtown Community Development Corporation intended to perform a site visit in fiscal year 2002, the auditors noted Midtown Community Development Corporation was not in compliance for the year ended December 31, 2002.¹⁹ (This non-compliance finding is also a reportable condition.)
- **Old Northeast, Inc. (December 31, 2003)**
Old Northeast, Inc. overstated reimbursements for the 2002-2003 contract.²⁰ (This non-compliance finding is also a reportable condition.)

Neighborhood and Community Services

- **Guadalupe Center, Inc. (December 31, 2002)**
Guadalupe Center, Inc. is required to submit a Financial Status Report quarterly using accrual basis accounting. The Center prepared their March 31, 2002 and June 30, 2002 reports on a cash basis.²¹

The quarterly Financial Status Reports for March 31, 2002 and June 30, 2002 were not submitted within 30 days of the end of the quarter.²¹

Agencies take a variety of actions to correct noncompliance. In addressing noncompliance findings, agencies reportedly changed their accounting basis, enhanced file backup procedures, and conducted site

¹⁹ Midtown Community Development Corporation, Report of Independent Accountants on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133, Independent Accountants' Schedule of Findings and Questioned Costs, PricewaterhouseCoopers LLP, for the year ending December 31, 2002.

²⁰ Old Northeast, Inc., Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133, Mayer Hoffman McCann P.C., for the year ending December 31, 2002.

²¹ Guadalupe Center, Inc., Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, Schedule of Findings and Questioned Costs, Ifft & Co. PA, for the year ending December 31, 2002.

visits. Because the non-compliance findings for the Midtown Community Development Corporation and Old Northeast, Inc., were also reportable conditions, the corrective actions taken by the agencies and the city's monitoring activities are reported on pages 12 and 13 of this report and will not be repeated here.

According to Samuel U. Rodgers Health Center, Inc.'s corrective action plan, the delay in filing the agency's audited financial statements and OMB A-133 reports was due to a loss of financial data and staff illness. The agency reports enhancing backup procedures and adding staff to address the noncompliance.

According to Guadalupe Center's accountant, Financial Status Reports completed after June 30, 2002 were on an accrual basis and the center terminated its involvement with the program in 2003.

Departments discuss noncompliance with agencies. Staff from the Health Department and the Neighborhood and Community Services Department report contacting personnel from the Samuel U. Rodgers Health Center, Inc. and Guadalupe Center, Inc., respectively, regarding their report filing findings.

Financial Analysis for Liquidity, Performance, and Long Term Stability

The city has a significant stake in agencies that receive more than \$1 million dollars in funding. When one of these agencies experiences financial problems, there can be serious ramifications for the city, such as MAST's current financial crisis. To keep the Council informed, we calculated several financial ratios for the 13 agencies receiving \$1 million or more from the city during fiscal year 2003.

We compiled five financial indicators. These indicators were selected to examine liquidity (current ratio and days of cash on hand), performance (operating margin and change in unrestricted net assets) and long term stability (debt to net assets). Because no single ratio gives a complete picture of the financial health of an organization, ratios and financial data should be viewed together to obtain an overall sense of an organization.

Not everyone calculates ratios using the same definitions. The definitions used for our analysis came from *Financial Management for Public, Health and Not-for-Profit Organizations* by Steven A. Finkler.²²

²² Steven A. Finkler, *Financial Management for Public, Health, and Not-for-Profit Organizations* (Upper Saddle River, New Jersey: Prentice Hall, 2001).

Liquidity Indicators

Liquidity ratios assess short-term risks. They focus on whether an organization has enough cash and liquid resources to meet near term obligations. We calculated two liquidity ratios, the current ratio and the days of cash on hand.

Current ratio. The current ratio is one of the most common measures of liquidity. It compares an entity's current assets (those assets that become cash or are used up within a year) to current liabilities (liabilities due within a year). This ratio measures an organization's ability to meet obligations as they become due. If the current ratio is too low, an organization may not be able to meet its obligations. If the ratio is very high, resources might be more productively employed in other ways.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Days of Cash on Hand. Days of cash on hand is another widely used liquidity ratio. It measures how long an organization could meet its daily expenses using just the resources on hand. It compares cash and near cash assets to daily operating expenses. Bad debt and depreciation are excluded from operating expenses because they do not require a cash outflow. Too low a ratio suggests that an agency couldn't meet its obligations if something happened that cut off future cash inflows. Too high a ratio suggests that cash could be better utilized to provide resources or services.

$$\text{Days of Cash on Hand} = \frac{\text{Cash} + \text{Marketable Securities}}{(\text{Operating Expenses} - \text{Bad Debt} - \text{Depreciation})/365}$$

Performance Indicators

While public service organizations do not provide services primarily to make a profit, organizations need to earn income to be financially healthy, to improve and expand services, and to meet future challenges. Financial resources are a means to an end. Without adequate financial resources, an organization generally can not achieve its mission. To measure financial performance, we examine two indicators, the change in unrestricted net assets and the operating margin.

Change in Unrestricted Net Assets. Not-for-profits and governmental organizations use the term net assets. Net assets, owners' equity, and fund balance consist of amounts that have been contributed to an organization and profits or surpluses that have been earned and retained

over time. These terms represent the residual amount when liabilities are subtracted from assets. Net assets may be unrestricted, temporarily restricted, and permanently restricted. Increases in net assets are generally caused by revenues and decreases are generally caused by expenses.

Operating Margin. Operating margin generally measures the percent of earnings (operating revenue less operating expenses) generated for each dollar of operating revenue received. For not-for-profit entities, this ratio compares the change in unrestricted net assets with total unrestricted revenue and other support. A positive percentage would indicate that the organization earned so many cents for every dollar of revenue. A negative ratio indicates an entity's operating expenses are greater than its operating expenses and the entity is not breaking even.

$$\text{Operating Margin} = \frac{\text{Change in Unrestricted Net Assets}}{\text{Total Unrestricted Revenues and Other Support}}$$

Long Term Stability Indicators

While liquidity ratios are used to assess an organization's ability to meet short term obligations, debt to net assets assesses the long term viability of an agency.

Debt to Net Assets. The debt to net asset ratio measures the extent to which an organization supports its activities by using debt. The ratio calculates the amount of debt used to finance the acquisition of its assets. The ratio is calculated by dividing an agency's total debt by its net assets. Net assets are a measure of equity. The measurement of equity depends on the type of organization. It could be stockholders' equity, fund balance or net assets. Debt ratios can be calculated using a range of different definitions for debt. We use total liabilities. Debt allows agencies to undertake programs and enhance services that they otherwise could not do. Excessive debt levels risk the continued existence of an agency.

$$\text{Debt to Net Assets} = \frac{\text{Total Debt}}{\text{Total Net Assets}}$$

Exhibit 8. Children's Mercy Hospital Financial Ratios

Measure	Audit Year Ending		
	6/30/01	6/30/02	6/30/03
Current Ratio	2.64	2.49	1.89
Days of Cash on Hand	28	46	39
Change in Unrestricted Net Assets	N/A ²³ (Restatement)	\$1,867,083	\$15,092,662
Operating Margin	N/A ²³ (Restatement)	1%	4%
Debt to Net Assets	0.25	0.40	0.42

Sources: Children's Mercy Hospital June 30, 2002 and June 30, 2003 Audited Financial Statements, KPMG, LLP and City Auditor's Office calculations.

Exhibit 9. Convention and Visitor's Bureau of Greater Kansas City Financial Ratios

Measure	Audit Year Ending		
	4/30/01	4/30/02	4/30/03
Current Ratio	2.67	2.79	1.73
Days of Cash on Hand	23	27	15
Change in Unrestricted Net Assets	\$29,657	(\$192,498)	(\$260,019)
Operating Margin	0.4%	(3%)	(4%)
Debt to Net Assets	1.99	2.20	4.01

Sources: Convention and Visitor's Bureau of Greater Kansas City April 30, 2002 and April 30, 2003 Audited Financial Statements, House Park & Dobratz, P.C. and City Auditor's Office calculations.

Exhibit 10. Economic Development Corporation of Kansas City, Missouri Financial Ratios

Measure	Audit Year Ending		
	4/30/01	4/30/02	4/30/03
Current Ratio	1.38	0.60	0.51
Days of Cash on Hand	8	7	15
Change in Unrestricted Net Assets	\$28,440	(\$239,433)	(\$296,684)
Operating Margin	0.89%	(7.89%)	(8.48%)
Debt to Net Assets	0.42	1.40	(7.19) ²⁴

Sources: Economic Development Corporation of Kansas City Missouri's April 30, 2001, April 30, 2002, and April 30, 2003 Audited Financial Statements, Cochran, Head & Co., P.C. and City Auditor's Office calculations.

Exhibit 11. Friends of the Zoo, Inc. Financial Ratios

Measure	Audit Year Ending		
	12/31/00	12/31/01	12/31/02 ²⁵
Current Ratio	5.78	2.81	N/A
Days of Cash on Hand	225	244	N/A
Change in Unrestricted Net Assets	\$11,795	(\$629,400)	N/A
Operating Margin	0.26%	(17%)	N/A
Debt to Net Assets	0.41	0.70	N/A

Sources: Friends of the Zoo, Inc.'s December 31, 2001 Audited Financial Statements, Deloitte & Touche and City Auditor's Office calculations.

²³ Children's Mercy Hospital, Inc.'s unrestricted net assets were restated in 2001 due to a cumulative effect of a change in accounting principle to record the Investment in the net assets of the Children's Mercy Hospital Foundation. Because of the restatement, we can not make comparisons of Change in Unrestricted Net Assets and Operating Margins in 2002.

²⁴ The Economic Development Corporation of Kansas City, Missouri reported negative net assets of \$79,580 as of April 30, 2003.

²⁵ We did not receive the Friends of the Zoo, Inc.'s December 31, 2002 audited financial statements as of March 4, 2004.

Exhibit 12. Hispanic Economic Development Corporation Financial Ratios

Measure	Audit Year Ending		
	5/31/01	5/31/02	5/31/03
Current Ratio	0.81	5.94	17.77
Days of Cash on Hand	7	1	21
Change in Unrestricted Net Assets	\$267,959	\$128,907	\$1,021,319
Operating Margin	12%	29%	79%
Debt to Net Assets	1.51	0.01	0.004

Sources: Hispanic Economic Development Corporation's May 31, 2001, May 31, 2002, and May 31, 2003 Audited Financial Statements, Marsh & Company, P.A. and City Auditor's Office calculations.

Exhibit 13. Housing and Economic Development Financial Corporation Financial Ratios

Measure	Audit Year Ending			
	5/31/00	5/31/01	5/31/02	5/31/03 ²⁶
Current Ratio	8.30	4.06	1.83	N/A
Days of Cash on Hand	486	254	197	N/A
Change in Unrestricted Net Assets	\$133,266	\$636,338	\$40,613	N/A
Operating Margin	4.33%	8.76%	0.31%	N/A
Debt to Net Assets	0.01	0.05	0.11	N/A

Sources: Housing and Economic Development Financial Corporation's May 31, 2001 and May 31, 2002 Audited Financial Statements, McGladrey & Pullen, LLP and City Auditor's Office calculations.

Exhibit 14. Kansas City Area Transportation Authority Financial Ratios

Measure	Audit Year Ending		
	12/31/00	12/31/01	12/31/02
Current Ratio	1.43	1.42	1.41
Days of Cash on Hand	234	246	281
Change in Unrestricted Net Assets	\$2,480,420	(\$1,630,252)	\$10,327,361
Operating Margin	4%	(3%)	14%
Debt to Net Assets	0.26	0.23	0.21

Sources: Kansas City Area Transportation Authority's December 31, 2001 and December 31, 2002 Audited Financial Statements, Cochran, Head & Co., P.C. and City Auditor's Office calculations.

Exhibit 15. Kansas City Free Health Clinic Financial Ratios

Measure	Audit Year Ending		
	3/31/01	3/31/02	3/31/03
Current Ratio	10.69	6.59	5.09
Days of Cash on Hand	76	53	59
Change in Unrestricted Net Assets	\$819,535	\$1,745,178	\$145,756
Operating Margin	15%	27%	3%
Debt to Net Assets	0.08	0.24	0.21

Sources: Kansas City Free Health Clinic's March 31, 2002 and March 31, 2003 Audited Financial Statements, Grant Thornton LLP and City Auditor's Office calculations.

²⁶ We did not receive the Housing and Economic Development Financial Corporation's May 2003 audited financial statements as of March 4, 2004.

Exhibit 16. Metropolitan Ambulance Services Trust Financial Ratios

Measure	Audit Year Ending		
	4/30/01	4/30/02	4/30/03
Current Ratio	2.12	1.64	1.19
Days of Cash on Hand	14	2	0
Change in Unrestricted Net Assets	(\$925,904)	(\$3,676,439)	(\$163,599)
Operating Margin	(2%)	(10%)	(0.4)%
Debt to Net Assets	1.33	1.80	1.83

Sources: Metropolitan Ambulance Services Trust's April 30, 2002 and April 30, 2003 Audited Financial Statements, KPMG, LLP and City Auditor's Office calculations.

Exhibit 17. SAVE, Inc. and Affiliates Financial Ratios

Measure	Audit Year Ending		
	6/30/01	6/30/02	6/30/03
Current Ratio	2.00	5.06	2.09
Days of Cash on Hand	20	53	35
Change in Unrestricted Net Assets	(\$150,721)	(\$125,391)	(\$109,337)
Operating Margin	(6%)	(6%)	(4%)
Debt to Net Assets	0.15	0.16	0.19

Sources: SAVE, Inc. and Affiliates June 30, 2001, June 30, 2002, and June 30, 2003 Audited Financial Statements, Ifft & Co., P.A. and City Auditor's Office calculations.

Exhibit 18. Tax Increment Financing Commission of Kansas City, Missouri Financial Ratios

Measure	Audit Year Ending		
	4/30/01	4/30/02	4/30/03
Current Ratio	1.05	76.79	1.67
Days of Cash on Hand	96	69	179
Change in Unrestricted Net Assets	(\$351,306)	(\$5,680,617)	\$10,420,389
Operating Margin	(1.75%)	(19.18%)	26.98%
Debt to Net Assets	0.26	12.76	10.24

Sources: Tax Increment Financing Commission of Kansas City, Missouri's April 30, 2001, April 30, 2002, and April 30, 2003 Audited Financial Statements, Cochran, Head & Co. P.C. and City Auditor's Office calculations.

Exhibit 19. Truman Medical Center, Inc. Financial Ratios

Measure	Audit Year Ending		
	4/30/01	4/30/02	4/30/03
Current Ratio	2.09	2.39	2.32
Days of Cash on Hand	16	14	19
Change in Unrestricted Net Assets	(\$8,932,204)	\$218,589	\$1,610,112
Operating Margin	(4%)	0.8%	1%
Debt to Net Assets	0.36	0.60	0.87

Sources: Truman Medical Center's April 30, 2002 and April 30, 2003 Audited Financial Statements, BKD, LLP and City Auditor's Office calculations.

Exhibit 20. Union Station Kansas City, Inc. Financial Ratios

Measure	Audit Year Ending		
	12/31/00	12/31/01	12/31/02
Current Ratio	2.39	1.66	1.61
Days of Cash on Hand	321	351	188
Change in Unrestricted Net Assets	(\$169,340)	(\$13,665,428)	(\$8,134,530)
Operating Margin	(0.5%)	(66%)	(35%)
Debt to Net Assets	0.35	0.22	0.15

Sources: Union Station Kansas City, Inc.'s December 31, 2001 and December 31, 2002 Audited Financial Statements, KPMG, LLP and City Auditor's Office calculations.

Reports Not Submitted

Three agencies that collectively received almost \$28 million in city funding during fiscal year 2003, did not submit financial audits within the timeframe established by the Council. City code requires audits be submitted to the city within six months of the agency's fiscal year end. Although their fiscal years ended more than six months earlier, the agencies had not submitted copies of their financial audit by March 4, 2004. As a consequence, recent information on the accounting and internal control structures of these agencies is not available to elected officials, the City Manager, or monitoring departments, and the agencies are not in compliance with the city code. (See Exhibit 21.)

Exhibit 21. Funding of Non-Reporting Agencies

Agency	Audit Year Ending	Funding FY 2003
Friends of the Zoo, Inc.	12/31/2002	\$ 2,950,000
Housing and Economic Development Financial Corporation	5/31/2003	24,385,586
KCMC Child Development Corporation	6/30/2003	237,186
Total		\$27,572,772

Sources: City's Financial Management System (AFN).

Differences between Friends of the Zoo management and the Kansas City, Missouri Board of Parks and Recreation Commissioners concerning leave balances of city employees remaining with the Zoo prevents the Friends of the Zoo audit from being completed. The audit for the Housing and Economic Development Financial Corporation is not completed. The commercial auditor for KCMC Child Development Corporation is withholding their audit until a federal audit of the agency is completed.